



What does J&J's Ottawa delay mean for Intuitive and Medtronic? It's complicated.

The setback doesn't remove the hurdles all potential rivals face in playing catch-up to overcome market leader Intuitive's da Vinci, which has a two-decade head start.

Published Oct. 28, 2021



Ricky Zipp
Reporter

Mario Tama via Getty Images

Johnson & Johnson's delay of its Ottawa robotic-assisted surgery system will keep it out of the soft tissue robotics space for at least two years longer than expected, but the setback may not be as significant a blow for the healthcare giant as it seems.

The two-year pushback may have come at the right time as the market is still less than 5% penetrated, leaving plenty of room for companies to establish themselves, according to Wall Street analysts. Other factors, such as whether Ottawa's offerings can



Home

Topics

Deeper

Library

Events

differentiate the system from Intuitive Surgical's da Vinci or Medtronic's Hugo machines, also muddy the waters.

"[The delay is] less of an impact given that penetration is so low that there is still significant runway for penetration to increase," Truist Securities analyst David Rescott said.

Intuitive was the first out of the gate for soft tissue robotics and has operated as the clear market leader for nearly two decades with little competition. Over this time, the company has grown to place over 6,500 da Vinci systems, bringing in \$4.2 billion of revenue and \$2.9 billion of gross profit so far this year.

However, Medtronic and J&J have been looking to dismantle the near-monopoly for years. Medtronic unveiled its Hugo soft tissue system in 2019 and received CE mark for Europe earlier this month. J&J gave the first glimpse of its Ottava soft tissue system in November 2020, projecting that first-in-human trials would begin in the second half of 2022, which will now be pushed back to the second half of 2024.

Smaller companies like Vicarious Surgical and Memic Innovative Surgery are also looming.

Intuitive has been expecting competition from larger medtechs and making financial adjustments, according to Baird analyst Mike

Polark. The robotics maker has developed flexible financial arrangements with hospitals, lowered price points and extended the usage life of instruments, among other moves.

It could be as many as five years before J&J's Ottawa actually hits the market in the U.S. or Europe after trials are conducted and regulatory review, a complex process with multiple hurdles that could spur further delays.

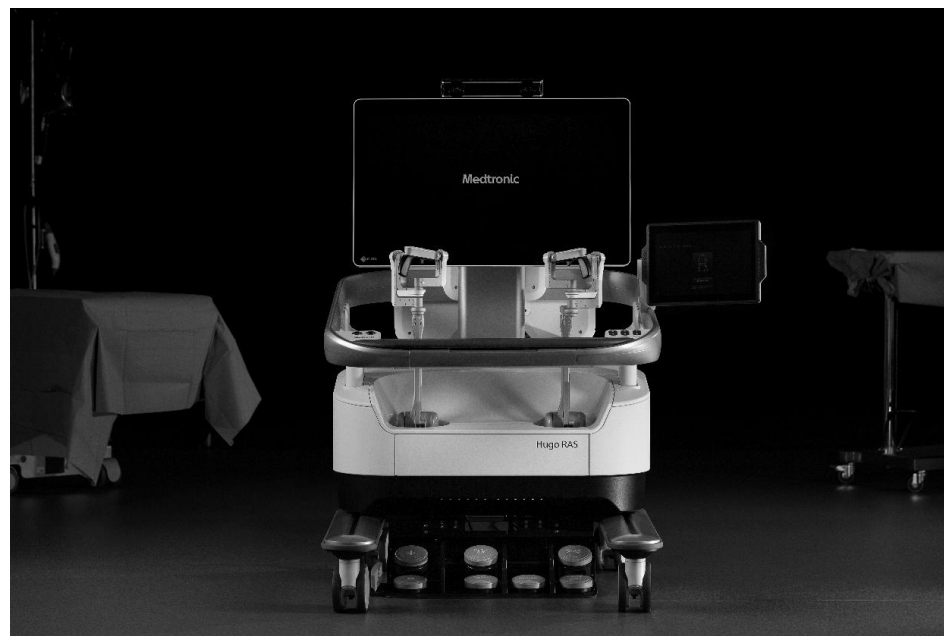
“It’s still a tall order for any of these two big companies [or] the smaller companies to really rival da Vinci ... A lot of execution is still required,” Polark said. While Medtronic is entering the market before J&J, Polark said it could be late 2023 or 2024 before Intuitive really feels any impact.

Home

Deep

Libra

Even



Medtronic's Hugo robotic-assisted surgery system recieved CE mark for urologic and gynecologic procedures.

Courtesy of Medtronic

Time will tell

J&J CFO Joseph Wolk told investors last week the Ottawa delay was due to COVID-19 disruptions and supply chain challenges. No additional details were provided, however.

Medtronic similarly had to delay the launch of its Hugo system last year due to the pandemic, which made it difficult for the company

to finalize lab testings with physicians as in-person events and activities came to a grinding halt.

The lack of details regarding J&J's delay adds to the difficulty in understanding the full impact, Stifel analyst Rick Wise said. For example, is the semiconductor chip shortage 1% of the reason for the delay or 90% of the reason for the delay?

J&J could also be taking more time to ensure that their system will not mirror too closely what Intuitive or Medtronic is already offering, Wise added.

"In the context of a market that may be 5% or less penetrated ... taking the time now and getting it right makes sense," Wise said.

The healthcare giant also has decades of experience in the surgical world, and has long relationships developed with hospitals and surgeons to tap into when the robot is ready, which gives them more of a time cushion than perhaps a smaller or newer company.

For Medtronic, the delay gives it time to focus on solidifying itself as the new entrant and not worry about a second competitor coming in soon.

The company has projected a \$50 million to \$100 million revenue contribution from Hugo in the first fiscal year, with that mark doubling or tripling by 2023, Truist's Rescott said, adding it could

Home

Deep

Libra

Even

be 2025 or beyond before Medtronic sees a significant benefit in market share gains or expansion from J&J's absence.

Medtronic, however, will be looking to chip away at Intuitive's lead right away. The company has been approved for a CE mark for urologic and gynecologic procedures in Europe, and Megan Rosengarten, Medtronic's president of surgical robotics, told MedTech Dive that urologic procedures will be the first indication applied for with the FDA.

Evervare ISI analysts projected that an FDA decision could come in the second half of 2022.

Rosengarten did not provide specifics regarding what the European launch will look like but said that there are hospitals and facilities lined up and planned for placements. Surgeries and placements have also begun in India and Latin America.

Intuitive CEO Gary Guthart, meanwhile, recently shrugged off the potential of competition and the ability of rival systems to match or outperform da Vinci.

"So far there are a fair number of claims about what these new systems will do, and I think the reality is time will tell," Guthart told investors on an earnings call. "I think evidence has to be

generated to back up those claims, and so far, we don't see anything yet that looks like evidence."

Multiple analysts agreed that merely bringing a system to the market will not be enough to compete as a leader. Any competitor will need to build up instruments and accessories to go along with the system and also expand the number of procedures able to be conducted with their robot.

Intuitive currently has over 70 different procedures that can be conducted with da Vinci, and revenue from instruments and accessories accounts for about 55% of the company's \$4.2 billion of revenue generated in the first nine months of 2021.

Wise argued that while a delay by a large competitor may be good for Intuitive or Medtronic in the short term, it's hard to project which system is going to be dominant as the market grows over the decades, potentially allowing a latecomer to be a top competitor.

"I don't know how we can know what it means in the long run," Wise said. "But yes, I think it's going to be challenging enough for anybody to go up against Intuitive Surgical because they're on their fifth-generation [system] and they created the market."